

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2015-163-E - ORDER NO. 2020-__

December __, 2020

IN RE:)	
Application of Duke Energy Progress,)	
LLC to Establish a New Cost Recovery)	
and Incentive Mechanism for Demand-)	<i>Joint Proposed</i>
Side Management and Energy Efficiency)	ORDER APPROVING REVISED
Programs)	DSM/EE MECHANISM
_____)	

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the Application of Duke Energy Progress, LLC (“DEP” or “the Company”) for approval of its revised cost recovery mechanism (“Mechanism”) for Demand-Side Management and Energy Efficiency (“DSM/EE”) Programs (“Application”). The Company filed the Application on June 26, 2020 pursuant to S.C. Code Ann. § 58-37-20.

The Commission’s Clerk’s Office instructed the Company to publish a Notice of Filing in newspapers of general circulation one time and provide proof of publication, with which the Company complied. The South Carolina Coastal Conservation League, Southern Alliance for Clean Energy, Walmart Inc., Nucor Steel - South Carolina, and the South Carolina Office of Regulatory Staff are parties to this proceeding (collectively, the “Parties”).

On December 4, 2020, the Parties filed a Settlement Agreement that partially modified the Mechanism, as described below, and which, by its terms, represents a full resolution of all matters pertaining to the Application (“Settlement Agreement”). The Settlement Agreement is attached hereto as Order Exhibit No. 1.

A. Background & the Application

The Company's current cost recovery mechanism, approved in Order No. 2015-596, provides for the recovery of reasonable and prudent costs related to the Company's DSM and EE programs, as well as the recovery of program performance incentives and Net Lost Revenues ("NLR"). In addition, the current mechanism provides standards for existing and proposed DSM and EE programs and the criteria necessary for large commercial and industrial customers to "opt-out" of program participation.

The Company stated in its Application that the purpose of its filing was to revisit and update the following components of the Mechanism: the cost benefit test used to screen new Programs; the Opt-Out Requirements for Industrial Customers and Certain Commercial Customers; the Portfolio Performance Incentive and introduce a Program Return Incentive; other Incentives and Penalties; certain NLR provisions; and certain Program Cost recovery provisions.

As related to the cost benefit test for new Programs, DEP proposed to change from using the Total Resource Cost ("TRC") test as the primary cost-benefit screen for evaluating new programs to the Utility Cost Test ("UCT"). While the Company will continue to provide the results of all four of the cost effectiveness tests, it believes that adopting the UCT as the primary screen is a better approach that will mitigate the impact of changing energy efficiency codes and standards, give the Company greater ability to respond to changes in the market, and ensure that the energy efficiency benefits achieved by a program for the utility system are greater than the cost to the utility system to offer that program.

As related to changes to the opt-out requirements, the Company proposed to clarify that, in cases when the DSM rate element of the Rider DSM/EE ("Rider") is a credit, any opt-out eligible customer who wishes to opt-in to the DSM portion of the Rider, without participating in a DSM

Program, will be required to remain opted into the DSM portion of the Rider for the same number of months they received a bill credit following the last month in which they received a DSM bill credit from the Rider. DEP proposed that the same condition apply to customers opting in to the EE portion of the Rider.

DEP also proposed, as part of its Application, to collect a Portfolio Performance Incentive (“PPI”) for its DSM/EE portfolio for each Vintage Year, separable into Residential, Non-Residential DSM, and Non-Residential EE categories. While the Company is already eligible for a PPI under the existing Mechanism, DEP proposed to reduce the PPI from 11.5% to 10.60%, and to establish a Program Return Incentive (“PRI”). The proposed PPI will be based on the net dollar savings of DEP’s DSM/EE portfolio, as calculated using the UCT. The South Carolina retail jurisdictional and class portions of the system-basis net dollar savings will be determined in the same manner as utilized to determine the South Carolina retail jurisdictional and class portions of recoverable system costs.

DEP also proposed a PRI, which is an incentive to encourage DEP to pursue savings from existing and new low-income DSM/EE programs, and to maintain and increase the cost effectiveness of these programs. The percentage ultimately used to determine the PRI for each Vintage Year will be based on the Company’s ability to maintain or improve the cost effectiveness of the PRI-eligible programs over and above that initially estimated for the Vintage Year. The PRI will be based on a percentage of the gross avoided costs of those programs eligible for the PRI, initially set at 10.6%. The South Carolina retail jurisdictional and class portions of the system-basis gross dollar savings will be determined in the same manner as utilized to determine the South Carolina retail jurisdictional and class portions of recoverable system costs.

DEP had also proposed that, if it achieves annual energy savings of 1.0% of the prior year's DEP system retail electricity sales in any year during the four-year 2022-2025 period, the Company would receive an additional incentive of \$75,000 for that year. Likewise, DEP had proposed that if it failed to achieve annual energy savings of 0.5% of retail sales, net of sales associated with customers opting out of the Company's EE Programs, the Company would reduce its EE revenue requirement by \$75,000.

DEP also proposed modifications to the requirements associated with NLR. First, in order to recover estimated NLR associated with a pilot program or measure, DEP proposed that it must, in its application for program or measure approval, demonstrate (1) the program or measure is of a type that is intended to be developed into a full-scale, Commission-approved program or measure; and (2) that it will implement an EM&V plan based on industry-accepted protocols for the program or measure. No pilot program or measure will be eligible for NLR recovery upon true-up unless it is ultimately proven to have been cost-effective, and is developed into a full-scale, commercialized program.

DEP also proposed to continue to use the "decision tree" previously approved for use by the Company and included as Attachment B to Order No. 2015-596 in Docket No. 2015-163-E—attached to the Application as Appendix C—for determining what constitutes Net Found Revenues. Net Found Revenues will be calculated in an appropriate and reasonable manner that mirrors the calculation used to determine NLR. Finally, DEP proposed certain amortization and recovery procedures for O&M and program costs.

B. Settlement Agreement

The Parties to this proceeding entered into a Settlement Agreement that consents to the establishment of the Mechanism as revised by the Application, subject to the following

modification: the additional incentive of \$75,000 and penalty/revenue requirement reduction of \$75,000 referenced above, in paragraph 40 of the Application, and in section M of the Revised Mechanism (Appendix B to the Application) are stricken and will not apply. The Company nevertheless agreed in the Settlement Agreement to aggressively pursue DSM and EE savings to achieve the goal of energy savings of 1% of prior year retail sales including opted-out customers.

In the Settlement Agreement, the Parties also agreed that the 2021 DSM/EE cost recovery filing (“Rider Filing”) will reflect the revisions to the Mechanism such that the projection of Vintage Year 2022 will reflect the updated Mechanism, and that any new EE and DSM programs or proposed modifications to existing programs filed on or after January 1, 2021 will comport with the updated Mechanism such that any cost effectiveness screening or cost recovery in 2022 will reflect the updated Mechanism.

The Parties also agreed that the Settlement Agreement represented a full resolution of all matters pertaining to the Application, and therefore that pre-filed testimony and a hearing are not necessary in this case. Finally, the Parties agreed that the Company would submit any proposed changes to the Mechanism to the Commission for approval concurrently with the Company’s annual DSM/EE rider filing in the year 2026.

C. Findings of Fact & Conclusions of Law

S.C. Code Ann. § 58-37-20 authorizes the Commission to

adopt procedures that encourage electrical utilities and public utilities providing gas services subject to the jurisdiction of the commission to invest in cost-effective energy efficient technologies and energy conservation programs. If adopted, these procedures must: provide incentives and cost recovery for energy suppliers and distributors who invest in energy supply and end-use technologies that are cost-effective, environmentally acceptable, and reduce energy consumption or demand; allow energy suppliers and distributors to recover costs and obtain a reasonable rate of return on their investment in qualified demand-side management programs sufficient to make these programs at least as financially attractive as construction

of new generating facilities; require the Public Service Commission to establish rates and charges that ensure that the net income of an electrical or gas utility regulated by the commission after implementation of specific cost-effective energy conservation measures is at least as high as the net income would have been if the energy conservation measures had not been implemented.

We find that—subject to the modification provided for in the Settlement Agreement referenced above—the Mechanism presented in the Application, including its appendices, as modified by the Settlement Agreement is just and reasonable, and is consistent with S.C. Code Ann. § 58-37-20. We also find that the Settlement Agreement is a just and reasonable resolution of the matters presented in the Application.

IT IS THEREFORE ORDERED THAT:

1. The Settlement Agreement, along with its Settlement Agreement Exhibit A, attached hereto as Order Exhibit No. 1, is approved as just and reasonable.
2. The Application for approval of the Mechanism, as modified by the Settlement Agreement, is approved as just and reasonable.
3. The Company shall submit to the Commission any proposed changes to the Mechanism for approval concurrently with the Company's annual DSM/EE rider filing in the year 2026.
4. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

Justin T. Williams, Chairman
Public Service Commission
South Carolina